Postal Regulatory Commission
Submitted 2/10/2017 4:19:52 PM
Filing ID: 99029
Accepted 2/10/2017

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268–0001

ANNUAL COMPLIANCE REVIEW, 2016	Docket No. ACR2016

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO QUESTIONS 1-15 OF CHAIRMAN'S INFORMATION REQUEST NO. 13

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 13, issued on February 3, 2017. Each question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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February 10, 2017

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1. In Docket No. ACR2015,[1] the Postal Service reports the percentage of External First-Class (EXFC) First-Class Mail Single-Piece Letters/Postcards with origin processing delays for October 1, 2015, through June 21, 2016. Please provide this information for the remainder of FY 2016 in the response format used in Figure 7. *Id.*

RESPONSE:

Blank cells indicate that no failures (0 percent) were attributed to the specified delay for the given service standard and time period.

Percentage of EXFC First-Class Mail Single-Piece Letters/Postcards with Origin Processing Delays

Qtr / Svc Std	1 Day	2 Day	3-5 Day
FY16 Q4		0.17%	1.19%
FY16 Q3		0.13%	1.32%
FY16 Q2		0.20%	2.68%
FY16 Q1		0.30%	3.54%
FY15 Q4		0.14%	1.57%
FY15 Q3		0.15%	2.40%
FY15 Q2	0.11%	0.24%	4.57%
FY15 Q1	0.12%	0.17%	1.47%

[1] Docket No. ACR2015, Second Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2015 Annual Compliance Determination, Service Improvement Plan, June 27, 2016, at 10.

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2. With respect to *each* End-to-End Standard Mail product, with a 6-10-day service standard, please provide the following information for FY 2015 and FY 2016:

a. the volume,

b. the percentage based on the total Standard Mail volume that is End-to-End and has a 6-10-day service standard,

c. the number of highway trips that are more than 4 hours late, disaggregated by quarter,

d. a detailed description of the processing flow, and

e. a detailed description of the applicable tracking reports and databases used by the Postal Service to gain visibility into the processing flow.

RESPONSE:

a. The volume of each Standard Mail (now known as Marketing Mail) product which is End-to-End and has a service standard between 6 and 10 days is not known for all Standard Mail because the service standard is not available for mail not in measurement. The volume of each Standard Mail product which is End-to-End and has a 6-10 day service standard and was in measurement is provided below.

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End-to-End Mail with 6-10-Day Service Standard

Volume included in Service Measurement

Standard Mail Product	**FY15**	**FY16**
High Density/Saturation Letters	31,471,658	40,973,446
High Density/Saturation Flats/Parcels	1,604,100	1,524,861
Carrier Route	15,208,853	15,627,005
Letters	1,671,097,968	2,196,681,524
Flats	244,673,107	363,548,017
Parcels	762,947	2,543,554
EDDM-Retail	0	0

b. In FY15, End-to-End mail with a 6-10 day service standard represented 4.9 percent of the total measured Standard Mail. In FY16, End-to-End mail with a 6-10 day service standard represented 5.2 percent of the total measured Standard Mail. The table below provides the breakout by product.

End-to-End Mail with 6-10-Day Service Standard

As a Percent of Total Measured Volume

Standard Mail Product	FY15	FY16
High Density/Saturation Letters	0.8%	0.9%
High Density/Saturation Flats/Parcels	0.1%	0.0%
Carrier Route	0.3%	0.3%
Letters	6.2%	6.7%
Flats	10.4%	10.0%
Parcels	8.3%	12.8%
EDDM-Retail	0.0%	0.0%

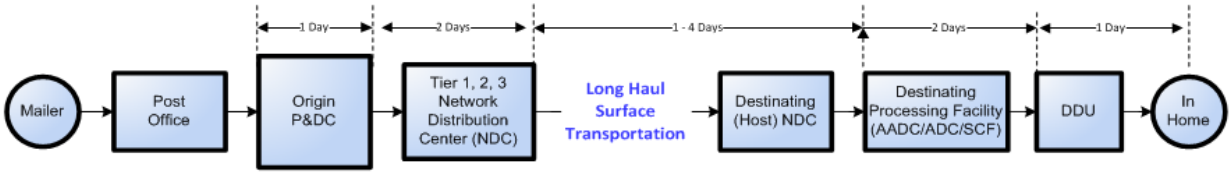
c. Highway trips carry mixed mail classes and the Postal Service does not discern Standard Mail only trips or trips related to a specific service standard. The Postal Service refers to highway trips that are more than 4 hours late as critically late highway trips. The national number of critically late highway contract route (HCR) trips, which includes various mail classes, is shown below for FY 2015 and FY 2016, disaggregated by quarter. See also Response to ChIR No. 1, Question 13 (filed January 10, 2017, in ACR2016).

d.

Description of Processing Flow for

Origin Entry Marketing Mail (formerly Standard Mail)

6-10 Day Service Standard



Note: The Process Flows described here depict Origin Entry directly at Processing & Distribution Centers (P&DCs)

Originating Flow: Marketing Mail (Letters)

Basic Levels of Mailer Preparation

1. Mixed Automated Area Distribution Center (AADC) and Area Distribution Center (ADC) Trays
2. Direct and Mixed AADC and ADC Pallets

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1. Mixed AADC and ADC Trays

a) Letter trays entered at an Origin P&DC which contain mail for multiple Area Distribution Code (ADC) or Automated Area Distribution Code (AADC) destinations (based upon the delivery ZIP Code) within the trays require Outgoing Primary distribution in the automation operations. Automation operations consists primarily of Delivery Bar-Code Sorter (DBCS) machines.

b) Upon entry at the Origin P&DC, this type of mail flows from the entry (inbound) dock operations to a tray sorting operation. At the tray sorting operation, trays from multiple mailers, requiring the Outgoing Primary level of distribution, are combined into containers which flow to the automation operations for sorting of the individual mail pieces within the trays.

c) During the primary distribution process, individual mail pieces are sorted to the AADC or ADC level based upon the delivery ZIP Code of each mail piece. Because of distribution limitations on DBCS machines, not all AADCs and ADCs can be sorted on the primary distribution. Thus, a secondary distribution is required for mail that is not fully sorted on the primary distribution. All AADCs and ADCs in the country are sorted on either the primary or secondary distribution.

d) Mail which cannot be sorted on DBCS machines because of physical characteristics or machine readability issues is "rejected". Rejected mail (rejects) flow to the manual distribution operations. At the manual distribution operations, the rejected mail pieces are manually distributed to the ADC level.

e) After the Outgoing Primary or Outgoing Secondary distribution to the AADC and ADC levels, mail is placed into letter trays which flow to the Outgoing tray sorting operations.

At this tray sorting operation, mail trays are containerized based upon the destination AADC or ADC and the planned surface transportation routing. Containers are then moved to the outbound docks and staged based on the scheduled transportation departure times.

2. Mixed AADC and ADC Pallets

a) Pallets of Letter trays entered at an Origin P&DC which contain trays for a single or for multiple Area Distribution Code (ADC) or Automated Area Distribution Code (AADC) destinations (based upon the delivery ZIP Code) within the trays, require pallet or tray distribution at a Network Distribution Center (NDC).

b) Upon entry at the Origin P&DC, this type of mail flows from the entry (inbound) dock operations to the appropriate outbound dock and staged based on the scheduled transportation departure times to the designated NDC.

c) AADC and ADC pallets are distributed to the destinating (delivery AADC or ADC) by a Tier 1, 2 or 3 NDC, depending on sortation level of the mail. These pallets and trays are transported via surface transportation from the Origin P&DC to the NDC Network.

d) Upon arrival at the designated NDC, pallets containing trays for a single AADC or ADC flow directly to the appropriate outbound dock and staged for the designated long haul surface transportation.

e) Pallets containing Letter trays for multiple Area Distribution Code (ADC) or Automated Area Distribution Code (AADC) destinations (based upon the delivery ZIP Code) identified on the tray labels, flow to a tray sorting operation.

f) At the tray sorting operation, the trays are sorted to the respective AADC or ADC destination, containerized and prepared for dispatch.

g) From the tray sorting operations, full containers of trays for a single AADC or ADC flow to the outbound dock and staged for the designated long haul surface transportation.

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Destinating Flow: Marketing Mail (Letters)

a) Containers of letter trays are transported from a Tier 2 or 3 NDC to the destinating (host) NDC which serves the destinating AADC or ADC Processing Facility. At the destinating NDC, arriving letter trays from the NDC network are aggregated and sorted to the destinating AADC and ADC, consolidated and prepared for dispatch to the destinating Processing Facility.

b) Upon arrival at the Processing Facility (AADC/ADC), containers of mail flow from the arrival (inbound) dock operations to a tray sorting operation. At the tray sorting operation, trays from multiple Origin P&DCs are sorted and combined into containers which flow to the automation operations for sorting of the individual mail pieces within the trays.

c) At the automation operations, trays of individual mail pieces are sorted on an Incoming Primary or a Sectional Center Facility (SCF) sort program which distributes the mail to the 5-Digit ZIP Code level in preparation for Delivery Point Sequence (DPS) processing.

d) After the Incoming Primary or SCF distribution to the 5-Digit level, trays of letters flow back to the tray sorting operations. At the tray sorting operations,

the trays are sorted to the respective 5-Digit level or to a grouping of 5-digit trays and containerized for DPS processing.

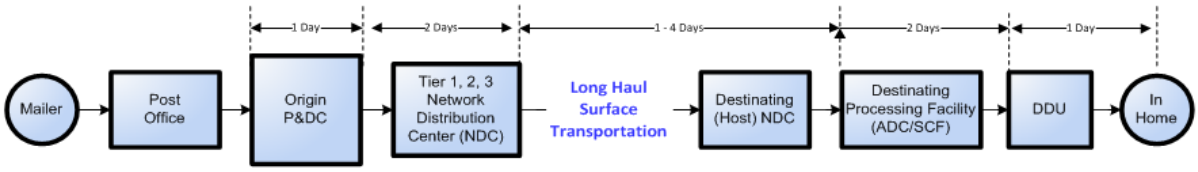
e) From the tray sorting operations, containers of a single 5-Digit ZIP Code, or a combination of specific 5-Digit ZIP Codes, flow back to the automation operations for DPS processing. DPS processing (sortation) is required to sort individual letters to the exact delivery order of the appropriate delivery route.

f) After DPS processing, containerized trays of sorted letters flow to the outbound dock operations for dispatch to the appropriate Delivery Unit.

Description of Processing Flow for

Origin Entry Marketing Mail (formerly Standard Mail)

6-10 Day Service Standard



Note: The Process Flows described here depict Origin Entry directly at Processing & Distribution Centers (P&DCs)

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Originating Flow: Marketing Mail (Flats)

Basic Levels of Mailer Preparation

1. Mixed Area Distribution Center (ADC) Bundles
2. Direct (Single ADC) and Mixed ADC Pallets

1. Mixed ADC Bundles

a) Pallets and Sacks of Mixed (multiple) ADC Bundles entered at an Origin P&DC which contain flats for multiple ADCs within the bundle must flow to an Automated Flat Sorting Machine (AFSM-100) for single piece distribution.

b) Sacks of flat mail bundles in this category must first flow to an "opening unit" where the sacks are opened and the bundles are manually aggregated and prepared for AFSM100 processing.

c) At the AFSM100 operations, bundles from the sack opening unit are merged with pallets of bundles. The bundles are prepared for single piece distribution by removing the strapping material and then sorted to the appropriate Area Distribution Code (ADC) based upon the delivery ZIP Code of each flat mail piece.

d) Because of distribution limitations on AFSM-100 machines, not all ADCs can be sorted on the Outgoing Primary distribution. Thus, a secondary distribution is required for mail that is not fully sorted on the primary distribution. All ADCs in the country are sorted on either the primary or secondary distribution.

e) Mail which cannot be sorted on AFSM-100 machines because of physical characteristics or machine readability issues is "rejected". Rejected mail (rejects) flow to the manual distribution operations. At the manual distribution operations, the rejected mail pieces are manually distributed to the ADC level.

f) After the Outgoing Primary or Outgoing Secondary distribution to the ADC level, mail is placed into flat mail trays which flow to the Outgoing tray sorting operations.

At this tray sorting operation, mail trays are containerized based upon the destination ADC and the planned surface transportation routing. Containers are then moved to the outbound docks and staged based on the scheduled transportation departure times.

2. Direct (Single ADC) and Mixed ADC Pallets

a) Pallets of flat bundles entered at an Origin P&DC which contain bundles for a single or for multiple ADC destinations (based upon the delivery ZIP Code)

within the bundles require pallet or bundle distribution at a Network Distribution Center (NDC).

b) Upon entry at the Origin P&DC, this type of mail flows from the entry (inbound) dock operations to the appropriate outbound dock and staged based on the scheduled transportation departure times to the designated NDC.

c) ADC bundles are distributed to the destinating (delivery ADC) by a Tier 1, 2 or 3 NDC, depending on sortation level of the mail. These bundles are transported via surface transportation from the Origin P&DC to the NDC Network.

d) Upon arrival at the designated NDC, pallets containing bundles for a single ADC flow directly to the appropriate outbound dock and staged for the designated long haul surface transportation.

e) Pallets containing bundles for multiple ADC destinations (based upon the delivery ZIP Code) identified on the bundle labels flow to a bundle sorting operation.

f) At the bundle sorting operation, the bundles are sorted to the respective ADC destination, containerized and prepared for dispatch.

g) From the bundle sorting operations, containers of bundles for a single ADC flow to the outbound dock and staged for the designated long haul surface transportation.

Destinating Flow: Marketing Mail (Flats)

a) Containers of flat mail bundles are transported from a Tier 2 or 3 NDC to the destinating NDC which serves the destinating (host) ADC Processing Facility. At the destinating NDC, arriving containers of bundles from the NDC network are aggregated and sorted to the destinating ADC, consolidated and prepared for dispatch to the Processing Facility.

b) Upon arrival at the Processing Facility (ADC), containers of flat mail bundles flow from the arrival (inbound) dock operations to a bundle sorting operation. At the bundle sorting operation, bundles from multiple Origin P&DCs are sorted to either a single 5-Digit or multiple 5-Digit levels depending upon the next level of distribution required.

Bundle sorting operations primarily consist of APPS, APBS and SPSS machines.

c) From the bundle sorting operations, containers of sorted bundles flow to either the AFSM-100 for Incoming Primary and Carrier Route processing or to the

Flats Sequencing System (FSS) for Delivery Point Sequence (DPS) processing. Non-FSS flat mail bundles distributed in the bundle sorting operations which are prepared to the Carrier Route (CR) level by the mailer, will flow directly to the outbound dock operations for staging and dispatch to the appropriate delivery unit.

d) Bundles that require FSS processing must first flow to the Stand-Alone Mail Prep (SAMP) operation for preparation (removal of strapping material and containerization into FSS trays). After preparation on the SAMP, flat mail pieces flow to the FSS for single piece distribution into DPS

e) Bundles that require AFSM100 processing will be processed on an Incoming Primary sort program to distribute the single piece flats to a single 5-Digit ZIP Code or to a grouping of 5-Digit ZIP Codes.

f) After the Incoming Primary distribution, flat mail for ZIP Codes which are non-automated will be containerized into flat mail trays which will flow to a tray sorting operation. At the tray sorting operation, the flat mail trays are sorted to specific delivery units based upon the 5-digit Zip Code of each tray. From the tray sorting operations, the containers of flat mail will flow to the outbound dock for staging and dispatch to the appropriate delivery unit.

g) 5-Digit trays of flats which require CR processing will flow to the tray sorting operations for grouping by 5-digit combinations based upon the respective AFSM-100 sort program. From the tray sorting operations, the flat mail trays will flow back to the AFSM-100 for CR processing.

h) After CR processing, the flat mail is containerized and routed directly to the outbound dock operations for staging and dispatch to the appropriate delivery unit.

e.

The Postal Service uses Service Performance Diagnostics (SPD) and Informed Visibility (IV) to monitor service performance as the volume moves through the postal network. SPD and IV have reports which allow operations to identify top opportunities impacting the service performance with the ability to drill down to piece level scan data to determine the failure points as the mail moves through the network. SPD and IV reports have filters which allow the end user to view the performance by Area, District, facility, mail class, mail shape, entry type, service standard, etc.

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3. Please refer to the Responses of the United States Postal Service to Questions 1-5 and 7-21 of Chairman's Information Request No. 1, January 10, 2017, questions 10.a. and 10.b. Please provide the information and data in an Excel file format.

RESPONSE:

The requested data are provided in the Excel file with the file name ChIR.13.Q.3.FCM Delays FY15-FY16.xlsx that accompanies (and is attached electronically to) this Response.

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4. Referring to the Revenue Pieces and Weight reports for Quarter 4 FY 2015 and Quarter 1 FY 2016:[2]

a. Please confirm that total mail volume (piece count) was 4.9 billion pieces (or 13 percent) higher in Quarter 1 FY 2016 than it was in Quarter 4 FY 2015.

b. Please confirm that total mail weight was approximately 1.2 billion pounds (or 22 percent) more in Quarter 1 FY 2016 than it was in Quarter 4 FY 2015. If not confirmed, please provide the accurate difference in pounds and percentage increase.

c. Please confirm that, by weight, competitive mail accounted for approximately 31.5 percent of total mail in Quarter 4 FY 2015, and approximately 36.7 percent of total mail in Quarter 1 FY 2016. If not confirmed, please provide the correct shares in each quarter.

d. Please confirm that, by weight, competitive mail accounted for 60 percent of the quarter-to-quarter increase quantified in question 1.b. If not confirmed, please provide the correct competitive share of the pound increase (defined as the quarterly change in competitive pounds divided by the quarterly change in total pounds).

e. Please confirm that Parcel Select alone accounted for 43 percent of the quarter-to-quarter increase quantified in question 1.b. If not confirmed, please provide the correct Parcel Select share of the pound increase (defined as the quarterly change in competitive pounds divided by the quarterly change in total pounds).

f. Please state whether the Postal Service agrees that the majority of the quarter-to-quarter differences identified in this question are due to seasonal factors, as opposed to a secular trend.

RESPONSE:

a. Confirmed.

b. Confirmed.

c. Confirmed.

d. Confirmed.

e. Confirmed.

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[2] *See* Library Reference USPS-FY16-42, December 29, 2016, Excel file "Fy2016_RPWsummary report_public.xlsx."

f. For volume, the primary reason for the increase in PQ 1 FY 2016 compared to PQ 4 FY 2015 was likely due to seasonality. This is because the percentage changes in quarterly volume in FY 2016 compared to the corresponding periods in FY 2015 are between minus two percent and positive two percent, and the percentage change for annual volume was essentially unchanged. For weight, however, the increase was likely due to a combination of seasonality and secular trend. The percentage changes in quarterly weight in FY 2016 were between 6 and 7 percent compared to the corresponding period in FY 2015. On an annual basis, the weight was six percent higher in FY 2016 compared to FY 2015. Consequently, the increase in weight between PQ 1 FY 2016 and PQ 4 FY 2015 was likely due to both a secular trend and seasonality with the majority of the percentage increase likely due to seasonality.

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5. Please explain in detail whether and how the costing principles and methodologies underlying cost attribution differ in Quarter 1, relative to Quarters 2 through 4.[3]

RESPONSE:

The assignment of costs to products can be categorized as a two-step process: attribution and distribution. The costing principles used to attribute costs do not differ by quarter. However, the distribution of some functional costs is done on a quarterly rather than annual basis. Specifically, the distribution of volume variable costs pertaining to purchased transportation (cost segment 14) and vehicle service driver labor (cost segment 8) are based on quarterly costs and distribution factors. Annual costs are then calculated by aggregating the quarterly costs.

[3] *See* Library Reference USPS-FY16-42.

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6. Referring to Library Reference USPS-FY16-32, December 29, 2016, and analogous files from previous years.

a. Please confirm that there are three types of special purpose routes (SPR): 86 ("Exclusive Parcel Post"), 87 ("Collection"), and 98 ("Other").

b. For each such route type, please describe the purpose of the routes in that category as well as how they are managed, including the frequency with which they are used, their similarity to or differences from regular city carrier routes, and other factors that the Commission might deem relevant to evaluating the cost attribution associated with special purpose routes.

c. Please confirm that neither the public library references filed in Docket No. ACR2016 nor public library references in other dockets contain a quarterly breakdown of cost accrual for each type of SPR. If not confirmed, please specify a public source where a quarterly breakdown is documented. If confirmed, please provide a quarterly breakdown of costs for each route type.

d. Please confirm that the "street costs" portion of SPR types 86, 87, and 98 are treated identically in terms of ultimate cost attribution. If not confirmed, please describe any differences between the cost attribution practices for the three SPR types.

RESPONSE:

a. Partially Confirmed. The special purpose route "Other" is inadequately named. An improved name is "Combination/Other". The costs for "Combination" SPR have not been separately identified since the IOCS redesign in Docket No. R2006-1.

b. The three types of special purpose routes are Parcel Post, Collection, and Combination/Other.

Parcel Post – These routes are primarily dedicated to the delivery of parcels and accountables, often for walk-out routes. Unlike city letter routes, Parcel Post routes do not typically service the same set of delivery points nor have the same line of travel on a daily basis. Other differences from letter routes are that these routes generally

experience less office time and can have different runs (trips back to delivery unit) throughout the day. The decision about the frequency, if any, of Parcel Post routes is executed locally, so their frequency varies greatly across the network. The decision to manage these routes locally is done because of the countless geographical and logistical issues that are present throughout the network such as traffic, parking, and disparate types of mail receptacles. In general, however, they are more common in dense urban areas that have foot letter routes, but they are also found in areas with motorized letter routes.

Collection – These routes are primarily dedicated to collecting mail from street collection boxes and other collection points and well as firm pickups. Unlike letter routes, these routes focus on the collection rather than the delivery of mail. They also tend to have much less office time than letter routes. Similar to letter routes, however, for service reasons, Collection routes generally service the same collection points in the same line of travel daily. However, they also often have *ad hoc* activities caused by, for example, an irregular collection from a firm. Moreover, Collection routes encounter trips to other postal facilities, as well as to the airport or plant, to retrieve or drop off collection mail. As with Parcel Post routes, Collection routes are managed locally because of varying needs, and their frequency varies greatly across the network.

Combination/Other – These routes are used to perform a variety of activities including but not limited to the following: 1) delivery of parcels and accountables, 2) servicing collection boxes and other collection points, 3) firm collections, 4) relay support to letter routes, and 5) intra-city and inter-station trips between postal facilities. The daily work of a city carrier is generally designed to take eight hours and

Combination/Other routes are often used when a Parcel Post or Collection route would not require eight hours of work. Thus, several different activities are combined for the carriers to perform daily. Unlike letter routes, Combination/Other routes do not service the same set of delivery points daily and they often include *ad hoc* trips to other postal facilities or firms for pickups. They may or may not include a fixed set of collection points to serve daily. As with the other types of special purpose routes, Collection/Other routes incur less office time than regular letter routes. Moreover, these routes are managed locally because of varying needs, and their frequency varies greatly across the network.

c. Not confirmed. Detailed data for each IOCS reading, including test date and route type, are available in the IOCS dataset provided in public folder USPS-FY16-37. These data can be aggregated to provide quarterly summaries, as displayed in the following table.

FY 2016 SPR Route Costs by Quarter

FY 2016 SPR	Q1	Q2	Q3	Q4	FY 2016
	($000)	($000)	($000)	($000)	($000)
Parcel Post	$ 66,246	$ 38,901	$ 42,236	$ 39,538	$ 186,921
Collection	$ 39,418	$ 32,774	$ 37,962	$ 40,520	$ 150,675
Combination/Other	$ 50,855	$ 52,405	$ 53,423	$ 45,982	$ 202,664

Source: USPS-FY16-37

d. Confirmed. The established method aggregates the SPR street costs across route types prior to the attribution and distribution treatment of these costs. The established attribution of SPR street costs is based on a series of studies done in 1995 and accepted by the Commission in Docket No. R97-1. The distribution factors used to assign the relevant SPR street costs are updated annually using the ongoing City

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Carrier Cost System – Special Purpose Routes (CCCS-SPR) for delivered mail and CCCS for collected mail.

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7. Please refer specifically to the costs in SPR type 86 ("Exclusive Parcel Post") for the following:[4]

a. Please explain the purpose and usage of this type of SPR. In particular, specify the extent to which the routes are regular, following a pre-specified sequence and schedule, and the extent to which they are used on an as needed basis in response to variation in mail volumes. Please also specify the extent to which these costs are accrued on various days of the week.

b. If and when SPRs follow a pre-specified route, such as an existing letter route, at what share (on average) of the delivery points on that route does the letter carrier stop?

c. Please confirm that between FY 2008 and FY 2013, the total accrued costs for SPR type 86 never exceeded $83 million in any single year. If not confirmed, please provide the single-year maximum during that 6-year period for total accrued costs on SPR type 86.

d. Please confirm that in FY 2016, the total accrued costs on SPR type 86 were nearly $187 million. If not confirmed, please provide the total accrued costs on SPR type 86 in FY 2016 to the nearest million.

e. Please confirm that between FY 2008 and FY 2013, the share of total accrued costs on special purpose routes that was accrued on type 86 ("Exclusive Parcel Post") SPRs did not exceed 17.2 percent in any given year. **I**f not confirmed, please provide the single-year maximum during that 6-year period for type 86 total accrued costs as a share of total SPR accrued costs.

f. Please confirm that in FY 2016, the total accrued costs on SPR type 86 accounted for 34.6 percent of total accrued SPR costs. **I**f not confirmed, please provide the type 86 total accrued costs as a share of total SPR accrued costs in FY 2016.

g. Please describe any and all changes in methodology or costing principles relevant to the attribution of SPR costs in the past 5 years.

RESPONSE:

a. Parcel Post routes are primarily dedicated to the delivery of parcels and accountables. Unlike letter routes, these routes generally do not follow a pre-specified

[4] *See* Library Reference USPS-FY16-32.

sequence and schedule. In dense urban areas, however, Parcel Post routes are often used to support foot letter routes. In these situations, a Parcel Post route may regularly support several foot letter routes daily, but they still would not necessarily use the same line of travel depending on the specific needs of the foot letter routes being supported. Because decisions about the usage of these routes are made locally, the extent to which these routes are used in response to variation in mail volumes is unknown. The following table shows the FY 2016 Parcel Post route costs by day of week.

FY 2016 Parcel Post Route Costs by Day of Week

FY 2016 SPR	Total	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
	($000)	($000)	($000)	($000)	($000)	($000)	($000)	($000)
Parcel Post Routes	$ 186,921	$ 29,185	$ 31,280	$ 23,744	$ 26,860	$25,422	$24,573	$25,859

Source: USPS-FY16-37

b. The Postal Service does not track the proportion of delivery points in which a letter carrier stops on its letter routes, so this proportion is unknown.

c. Confirmed.

d. Confirmed.

e. Confirmed.

f. Confirmed.

g. A method change to the treatment of indirect SPR costs occurred in Docket No. RM2016-3, Proposal Twelve. This method change resulted in a new component in cost segment 20 named City Delivery SPR that assigned SPR vehicle depreciation costs to products in the same manner as vehicle maintenance costs in cost segment 12.

Additionally, starting in FY 2014, a final adjustment was added to the D Report to account for certain costs of NSAs that were not otherwise accounted for, and those include (among other costs) SPR costs associated with Sunday delivery of pieces related to those NSAs. In some sense, this was not a change to SPR costing methods, because those costs were not being accrued prior to the initiation of these NSAs, but it is relevant to the current attribution of SPR costs.

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8. With regard to City Carrier Assistants:

a. Please confirm that in its FY 2016 Annual Report to Congress, the Postal Service reported that it employed 40,436 City Carrier Assistants.[5]

b. Please identify where the costs associated with these employees appear in the cost reports filed in Docket No. ACR2016.

c. Please explain how and to what extent these costs have been attributed to individual reports.

RESPONSE:

a. Confirmed.

b. City Carrier Assistants are a subset of City Carriers. Consequently, the direct and indirect costs incurred by City Carrier Assistants are treated in the same fashion as all City Carriers. Therefore, the direct labor costs associated with City Carrier Assistants are included in cost segments 6 (City Carrier In-Office) and 7 (City Carrier Street) and the components with indirect costs are listed in USPS-FY16-24, workbook FY16Public, tab CityCarriers, columns L through BG.

c. The costs are attributed and distributed as they are with all city carriers in the manner in which they are used (e.g., office/street, letter route/SPR). City Carrier Assistant labor costs are not treated differently from other city carrier labor costs.

Additionally, starting in FY 2014, a final adjustment was added to the D Report to account for certain costs of NSAs that were not otherwise accounted for, and those include (among other costs) costs for City Carrier Assistants associated with Sunday delivery pieces related to these NSAs.

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[5] United States Postal Service FY 2016 Annual Report to Congress, Library Reference USPS-FY16-17, December 29, 2016, at 29.

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9. Please refer to the Public Cost Segment and Component Reports from FY 2015 and FY 2016.[6] For each cost segment identified below, please provide the change in attributable cost per piece from FY 2015 to FY 2016 for: (1) total domestic market dominant mail; and (2) total domestic competitive mail, and explain any differences between the change in the attributable cost per piece for domestic market dominant and domestic competitive mail.

a. Cost Segment 3 Clerks and Mailhandlers

b. Cost Segment 7 City Delivery Carriers – Street Activity

c. Cost Segment 10 Rural Carriers

d. Cost Segment 11 Custodial and Maintenance Services

e. Cost Segment 14 Transportation

f. Cost Segment 18 Administration and Area Operations

RESPONSE:

a.-f. In order to avoid a mismatch of costs and volumes, the unit costs per piece in the table below will be used to answer the question. The table shows the unit costs for the specified cost segments for both FY2015 and FY2016 for both (1) total domestic market dominant mail and (2) total domestic competitive mail. This table shows, for both categories, the absolute and percentage change in unit costs. This table shows significantly different percentage changes in unit costs between the two categories for all the cost segments except Rural Carriers (C/S 10).

[6] *See* Docket No. ACR2015, Library Reference USPS-FY15-2, December 29, 2015; Library Reference USPS-FY16-2, December 29, 2016.

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Unit Costs per Piece for Market Dominant Mail and Competitive Mail FY 2015 – FY 2016

Unit Costs/Pc	Volume (000)	CS/3 Clerks and Mailhandlers	CS/7 City Delivery Carriers - Street Activity	CS/10 Rural Carriers	CS/11 Custodial and Maintenance Services	CS/14 Purchased Transportation	CS/18 Administration and Area Operations
Market Dominant Mail FY16	149,046,669	$ 0.0537	$ 0.0252	$ 0.0117	$ 0.0107	$ 0.0139	$ 0.0139
Market Dominant Mail FY15	149,512,154	$ 0.0535	$ 0.0245	$ 0.0115	$ 0.0110	$ 0.0132	$ 0.0154
Difference FY16-FY15	(465,486)	$ 0.0002	$ 0.0007	$ 0.0002	$ (0.0002)	$ 0.0007	$ (0.0016)
Pct Change FY16-FY15	0%	0%	3%	1%	-2%	5%	-10%
Competitive Mail FY 16	4,273,365	$ 0.7462	$ 0.1321	$ 0.1344	$ 0.0864	$ 0.7391	$ 0.1373
Competitive Mail FY 15	3,707,082	$ 0.8170	$ 0.1475	$ 0.1340	$ 0.0982	$ 0.7634	$ 0.1672
Difference FY16-FY15	566,284	$ (0.0709)	$ (0.0154)	$ 0.0004	$ (0.0118)	$ (0.0243)	$ (0.0299)
Pct Change FY16-FY15	15%	-9%	-10%	0%	-12%	-3%	-18%

Source: USPS-FY16-31 and USPS-FY15-31 (Costs – CRpt, Volumes IRpt).

For cost segments 3, 11, 14 and 18, the reason for the divergence in the percentage change in unit costs is the rapid growth of Total Ground as compared to other domestic competitive products, and also the nature of the growth (toward more dropshipping) in Total Ground. As shown in USPS-FY15-42 and USPS-FY16-42, domestic competitive products volume grew 566.3 million (=4,273.4 million – 3,707.1 million) or 15.3 percent. Total Ground grew 488.7 million (=2,457.5 million – 1,968.8 million) or 24.8 percent. The growth in Ground accounted for 86 percent of the growth in domestic competitive volume. Ground accounted for 53 percent of total domestic competitive volume in FY2015, and this share grew to 58 percent in FY2016. This faster growth of Ground lowers unit costs since Ground has a lower average unit cost as compared to the rest of domestic competitive mail. USPS-FY15-1 shows Total Ground unit cost of $1.41, while the average unit cost for Total Priority Mail Express, Total First-Class Package Service, Total Priority Mail and Total Ground is $2.78. The lower unit costs for Total Ground stems from the greater dropshipping for Total Ground as compared to the rest of domestic competitive mail. So the size of the increase in the share of Total Ground volume and its lower than average unit costs have led to

significant decreases in the average unit costs for domestic competitive mail in cost segments 3, 11, 14 and 18.

In addition, as described in the Postal Service's response to CHIR No. 11, question 3a, the unit cost for Total Ground has been declining due the growth in the share of dropshipped mail. A comparison of USPS-FY15-1 and USPS-FY16-1 shows the decline in Total Ground unit costs of $1.41 in FY2015 to $1.24 in FY2016, a 12 percent decline. These declines in Total Ground unit costs also are driving the declines in domestic competitive mail in cost segments 3, 11, 14 and 18.

The reason for the reduction in domestic competitive mail unit costs for cost segment 7 is as explained in the Postal Service's response to CHIR No. 11, question 9a. As noted there, city carrier costs did not rise as fast as volume due to productivity gains from delivering additional volume. In addition, domestic competitive mail city carrier delivery volume growth of 12.9 percent is slower than the overall 15.3 percent growth for domestic competitive mail.

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10. Referring to the Public Cost Segment and Component Reports[7] and the Public Revenue, Pieces, and Weight Reports from FY 2014, FY 2015, and FY 2016.[8] Please confirm that on a per-pound basis, the change in total attributable costs by mail class from FY 2014 to FY 2016 is as follows:

a. a 4.1 percent decrease for First-class mail

b. a 7.9 percent increase for Standard mail

c. a 5.5 percent increase for Periodicals

d. a 4.2 percent increase for Package services

e. a 23.2 percent decrease for Competitive Products

If not confirmed, please provide the correct percentage change from FY 2014 to FY 2016 in total attributable costs per pound, by class.

RESPONSE:

In order to avoid a mismatch of costs and weights, the unit cost per pound in the following table will be used to answer the question.

Unit Costs per Pound for Various Classes and Domestic Competitive
FY 2014 – FY 2016

Unit Costs/Lb	First-Class Mail	Standard Mail	Periodicals	Package Services	Domestic Competitive Products
FY 2016	$ 3.91	$ 1.40	$ 0.99	$ 0.62	$ 1.35
FY 2015	$ 3.86	$ 1.39	$ 0.97	$ 0.62	$ 1.57
FY 2014	$ 3.97	$ 1.30	$ 0.94	$ 0.60	$ 1.76
Difference FY16-FY14	$ (0.06)	$ 0.10	$ 0.05	$ 0.02	$ (0.41)
Pct Change FY16-FY14	-1.5%	7.9%	5.5%	2.8%	-23.2%

Source: USPS-FY16-31 and USPS-FY15-31 (Costs – CRpt, Volumes IRpt).

a. Not confirmed. The unit cost per pound for First-Class Mail between FY 2014 and FY 2016 decreased by 1.5 percent.

[7] *See* Docket No. ACR2015, Library Reference USPS-FY15-2; Library Reference USPS-FY16-2.

[8] See Docket No. ACR2014, Library Reference USPS-FY14-42, December 29, 2014; Docket No. ACR2015, Library Reference USPS-FY15-42, December 29, 2015; Library Reference USPS-FY16-42, December 29, 2016.

b. Confirmed.

c. Confirmed.

d. Not confirmed. The unit cost per pound for Package Services between FY 2014 and FY 2016 increased by 2.8 percent.

e. Confirmed.

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11. Please provide an explanation for the differences in the changes over the 2-year period [from FY2014 to FY20-16] in total attributable cost per pound. In other words, why did total attributable costs per pound for domestic competitive products decrease substantially over the last 2 years, while those for all other classes of mail, including market dominant package services, decreased less or increased over that same time period? Please list more than one reason if applicable.

RESPONSE:

The reason for the substantial decline in the cost per pound for domestic competitive products over the past two years is the rapid growth of Total Ground as compared to other domestic competitive products and the nature of the growth (toward more dropshipping) in Total Ground. As shown in USPS-FY14-42 and USPS-FY16-42, domestic competitive products volume grew 1,105.2 million (=4,273.4 million – 3,168.2 million) or 35 percent. Total Ground grew 881.9 million (=2,457.5 million – 1,575.6 million) or 56 percent. The growth in Ground accounted for 80 percent of the growth in domestic competitive volume. Ground accounted for 49 percent of total domestic competitive volume in FY 2014, and this share grew to 58 percent in FY 2016. This faster growth of Ground lowers the overall competitive products cost per pound, since Ground has a lower cost per pound as compared to the rest of domestic competitive mail. USPS-FY14-1 data can be used to show that Total Ground has a cost per pound of $0.83 while the aggregate average cost per pound for Total Priority Mail Express, Total First-Class Package Service, Total Priority Mail and Total Ground is $1.76. The lower cost per pound for Total Ground stems from the greater dropshipping for Total Ground as compared to the rest of domestic competitive mail and is consistent with the differences in unit costs discussed in response to question 9 of this Information

Request. So the size of the increase in the share of Total Ground volume and its lower than average cost per pound have led to significant decreases in the average costs per pound for domestic competitive mail.

In addition, as described in the Postal Service's response to CHIR No. 11, question 3a, the unit cost for Total Ground has been declining due the growth in the share of dropshipped mail. The cost per pound has also declined along with unit costs. As can be shown from USPS-FY14-1 and USPS-FY16-1, there was a 31 percent decline in Total Ground costs per pound from $0.83 in FY2014 to $0.57 in FY2016. This decline in Total Ground cost per pound is therefore also driving the declines in domestic competitive mail cost per pound.

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12. In its Annual Compliance Report, the Postal Service reported that thirteen domestic competitive negotiated service agreements (NSAs) failed to cover their attributable costs.

a. The Postal Service stated it was renegotiating four of those thirteen domestic competitive NSAs: Priority Mail Contract 150 (Docket No. CP2016-12), Priority Mail Contract 183 (Docket No. CP2016-82), Priority Mail Contract 228 (Docket No. CP2016-228), and Parcel Return Service Contract 108 (Docket No. CP2015-73).[9] Please provide the status of the Postal Service's efforts to renegotiate these contracts.

b. The Postal Service stated that, at the end of Quarter 1 of FY 2017, it intended to evaluate two of the thirteen domestic competitive NSAs that failed to cover costs, and take appropriate corrective action: Priority Mail Contract 160 (Docket No. CP2016-35) and Priority Mail Contract 214 (Docket No. CP2016-167). *Id*. The Postal Service states that it would monitor Priority Mail Contract 160 performance and renegotiate pricing if necessary. Please provide the status of the Postal Service's evaluation and findings, if any.

RESPONSE:

As an initial matter, although the text of part a. of the question refers to Parcel Return Service Contract 108 (Docket No. CP2015-73), based on the reference in the footnote of the question to Parcel Return Service Contract 10, and the cited text of the ACR which likewise refers to Parcel Return Service Contract 10 (Docket No. CP2015-89), this response assumes that the reference in the text of the question to Parcel Return Service Contract 108 (Docket No. CP2015-73) was in error, and the intended reference was Parcel Return Service Contract 10 (Docket No. CP2015-89).

[9] FY 2016 ACR at 86-87. The Postal Service lists Parcel Return Service Contract 10 under the NSAs that it plans to evaluate at the end of Quarter 1 of FY 2017. *Id.* at 87. However, the Postal Service then states that it is renegotiating pricing and will terminate the contract if necessary. *Id*.

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The status of the six domestic competitive negotiated service agreements (NSAs) identified in the question that failed to cover their attributable costs is summarized below.

a.

- Priority Mail Contract 150 (Docket No. CP2016-12) – the Postal Service is reevaluating the package characteristics for Q1 FY 2017 and will either amend or terminate based on our findings.

- Priority Mail Contract 183 (Docket No. CP2016-82) – termination letter will be sent in February 2017 providing 30-day notice for cancellation in March 2017.

- Priority Mail Contract 228 (Docket No. CP2016-228) – termination letter will be sent in February 2017 providing 30-day notice for cancellation in March 2017.

- Parcel Return Service Contract 10 (Docket No. CP2015-89) – the Postal Service is renegotiating the pricing for this agreement.

b.

- Priority Mail Contract 160 (Docket No. CP2016-35) – the Postal Service is preparing an amendment to adjust pricing for this agreement.

- Priority Mail Contract 214 (Docket No. CP2016-167) – The Postal Service stopped delivering this business on Tuesday, February 7, 2017, and is issuing a termination notice providing 30-day notice of cancellation.

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13. Please *see* Attachment, filed under seal.

RESPONSE:

Please see the response filed under seal as part of USPS-FY16-NP38.

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14. Please *see* Attachment, filed under seal.

RESPONSE:

Please see the response filed under seal as part of USPS-FY16-NP38.

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15. Please *see* Attachment, filed under seal.

RESPONSE:

Please see the nonpublic response filed under seal as part of USPS-FY16-NP38.